

November 15, 2012

## Bharti Airtel (Hold, TP Rs280 )

### Price Performance

(%)	1M	3M	6M	12M
Absolute	5	7	(10)	(30)
Rel. to Nifty	5	0	(22)	(36)

Source: Bloomberg

## Idea Cellular (Reduce, TP Rs87 )

### Price Performance

(%)	1M	3M	6M	12M
Absolute	17	29	14	(1)
Rel. to Nifty	16	21	(1)	(10)

Source: Bloomberg

## Muted participation, outcome +ve for incumbents

- As anticipated 2G auctions (1800MHz) concluded with muted participation from telcos, due to high reserve price. Govt. received bids for 127MHz spectrum out of 247MHz offered for sale. Govt. would get inflow of Rs94bn with upfront payment of Rs31bn (33% upfront)
- Delhi, Mumbai, Karnataka & Rajasthan that accounted for 51% of reserve price did not receive any bid. However, other 18 circles discovered market determined spectrum price
- We believe that lack of participation in 4 key circles would lead to lower reserve price going forward, which would be +ve for the industry and reduce spectrum related payouts
- Hence, we lower -ve impact of regulatory payouts from TP of Bharti & Idea. Upgrade Bharti to HOLD while maintain reduce on Idea. Revised TP stands at Rs280/Rs87 for Bharti/Idea

### Key Highlights of the auction

- Government would garner ~Rs94bn in total and only ~Rs31bn in first year, as government had approved staggered payment options for the operators. Inflow could be much lower after adj. for earlier license fee (Rs16.6bn) of telcos who faced license cancellation by SC and participated in the auctions.
- We were positively surprised with Bharti's muted participation in the auction. It had bid for only 1 circle (Assam) with 1.25MHz spectrum.
- Telenor won bids for 6 circles with total payout of Rs40bn and upfront payout of Rs13.3bn. These 6 circles account for 72% of Telenor's AGR (Q1FY13) but it did not bid for Mumbai, Kolkata and West Bengal which accounts for 16.1% of AGR. Telenor's approach remained selective and lower than its earlier indication of continuing operations in 9 circles.
- Idea won bids for 8 circles (7 circles which were cancelled by SC & 1 block in Bihar). Idea also won 5 blocks in West Bengal. Total payout for Idea would be Rs20bn with upfront payment of Rs6.7bn, which was on expected lines.
- Vodafone won bids in 14 circles with total payout of Rs11.3bn. Vodafone remained the highest bidder as far as numbers circles are concerned, we believe top up spectrum strategy is primarily to compete for revenue market share.
- Videocon opted for 6 circles with total payout of Rs22.2bn and upfront payment of Rs7.3bn. We are still not clear on the company's strategy.

### Our take

As expected, participation in 2G auctions (1800MHz) remained muted but outcome was +ve for the sector and weakens regulator's stand to keep high reserve price in 4 key circles (Delhi, Mumbai, Karnataka & Rajasthan), which did not see any bidding. These 4 circles account for 56%/45% of the total spectrum renewal payout for Bharti/Idea, reduction reserve price would be +ve. However we continue to maintain cautious view on the sector. Regulatory overhang still continues on the sector as there are many unanswered questions from regulator's end. Exact payout towards spectrum renewals, spectrum re-farming and excess charge remains uncertain as pan India reserve price remains undiscovered. Further, competitive landscape remains intense resulting in continued pressure on the profitability of the operators.

There are still many cases pending in SC pertaining to license cancellation and decision on that would be crucial for the sector. For instance, Shyam-Sistema had filed curative petition in SC, decision on the same would be crucial for other new entrants as well. In anticipation of lower reserve price in key 4 circles, we have reduced -ve regulatory per share impact on Bharti from Rs55 to Rs30 and for Idea it is reduced to Rs26 from Rs40. Revised TP for Bharti stands at Rs280 from Rs245 and Rs87 for Idea from Rs72.

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Market determined price in key circles (Delhi, Mumbai, Karnataka and Rajasthan) remained undiscovered due to lack of industry participation. This clearly indicates the intent of operators for not paying such high reserve price. We anticipate this would lead to cut in reserve price otherwise there would be continued lack of participation in next round of auctions as well. We have reduced the probability of negative regulatory impact in our target price of Bharti and Idea.

**Exhibit 1: Circle and operator-wise details of auction**

Circles	Reserve Price/MHz	Bid Price/MHz	Telenor	Bharti	Idea	Vodafone	Videocon	Circle-wise total pay out to Govt (Rs mn)
AP	2295	2869.1	11476.4					11476
Assam	69	86.7		86.7	346.8	173.4		607
Bihar	340	464.3	1857.2		464.3	928.6	1857.2	5107
Delhi								0
Gujarat	1799	2248.4	8993.6				8993.6	17987
Haryana	372	465.2				930.4	1860.8	2791
HP	62	77.8				77.8		78
J&K	51	63.3			253.2	126.6		380
Karnataka								0
Kerela	522	653				653		653
Kolkata	910	1137.2			4548.8			4549
MP	432	539.9				1079.8	2159.6	3239
Maharashtra	2103	2628.1	10512.4			2628.1		13141
Mumbai								0
North East	71	88.4			353.6	176.8		530
Orissa	162	202.7			810.8	405.4		1216
Punjab	538	672.8				672.8		673
Rajasthan								0
TN	2449	3060.9			12243.6			12244
UP (E)	609	761.7	3046.8			761.7	3046.8	6855
UP (W)	859	1074.1	4296.4			2148.2	4296.4	10741
WB	207	258.4			1292	516.8		1809
<b>Total payout (Rs mn)</b>	<b>13,850</b>	<b>17352</b>	<b>40,183</b>	<b>87</b>	<b>20,313</b>	<b>11,279</b>	<b>22,214</b>	<b>94,076</b>
<b>Upfront payment (Rs mn)</b>			<b>13,260</b>	<b>29</b>	<b>6,703</b>	<b>3,722</b>	<b>7,331</b>	<b>31,045</b>

Source: DoT, Emkay Research

**Exhibit 2: Circle-wise spectrum won by the operators**

Circles	Size per Block (MHz)	Total Spectrum available for Auction (MHz)	Total Spectrum					Total Spectrum to be allotted (MHz)
			Telenor	Bharti	Idea	Vodafone	Videocon	
AP	1.25	13.75	5.00					20.00
Assam	1.25	13.75		1.25	5.00	2.50		23.75
Bihar	1.25	13.75	5.00		1.25	2.50	5.00	
Gujarat	1.25	13.75	5.00				5.00	25.00
Haryana	1.25	13.75				2.50	5.00	22.50
HP	1.25	13.75				1.25		16.25
J&K	1.25	13.75			5.00	2.50		22.50
Kerela	1.25	13.75				1.25		16.25
Kolkata	1.25	13.75			5.00			20.00
MP	1.25	13.75				2.50	5.00	22.50
Maharashtra	1.25	13.75	5.00			1.25		21.25
North East	1.25	13.75			5.00	2.50		22.50
Orissa	1.25	13.75			5.00	2.50		22.50
Punjab	1.25	13.75				1.25		16.25
TN	1.25	13.75			5.00			20.00
UP (E)	1.25	13.75	5.00			1.25	5.00	26.25
UP (W)	1.25	13.75	5.00			2.50	5.00	27.50
WB	1.25	13.75			6.25	2.50		23.75
<b>Total Spectrum (MHz)</b>		<b>247.5</b>	<b>30.00</b>	<b>1.25</b>	<b>37.50</b>	<b>28.75</b>	<b>30.00</b>	<b>127.50</b>

Source: DoT, Emkay Research

**Exhibit 3: Circle-wise AGR (Q1FY13) contribution of each operator**

Circle-wise revenue contribution	Telenor	Bharti	Idea	Vodafone	Videocon
AP	9.2%				
Assam		2%	0.1%	1.2%	
Bihar	9.2%		3.5%	2.9%	
Gujarat	9.6%				
Haryana				2.6%	
HP				0.2%	
J&K			0.1%	0.3%	
Kerela				4.3%	
Kolkata			0.1%		
MP				0.9%	
Maharashtra	13.9%			9.6%	
North East			0.1%	0.5%	
Orissa			0.3%	1.2%	
Punjab				2.8%	
TN			0.3%		
UP (E)	18.7%			9.6%	
UP (W)	10.9%			4.7%	
WB			0.7%	5.9%	
<b>Total</b>	<b>71.5%</b>	<b>2%</b>	<b>5.3%</b>	<b>47%</b>	

Source: Trai, Emkay Research

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